

NATIONAL DAIRY MARKET AT A GLANCE

CHICAGO MERCANTILE EXCHANGE (CME) CASH MARKETS (8/31):
BUTTER: Grade AA closed at \$2.2250. The weekly average for Grade AA is \$2.2083 (+.0541).

CHEESE: Barrels closed at \$1.6800 and blocks at \$1.7200. The weekly average for barrels is \$1.6800 (+.0450) and blocks, \$1.7440 (+.0120).

NONFAT DRY MILK: Extra Grade closed at \$0.9900 and Grade A closed at \$1.0000. The weekly average for Extra Grade is \$0.9900 (N.C.) and Grade A, \$1.0000 (N.C.).

BUTTER: Butter markets are firm. The CME cash price is more than \$1.00 above year ago levels. Producers and handlers project prices to remain firm into the fall, but question how high will they actually go. In most instances, stocks of butter are lighter than desired for this time of the year. Churning activity is mixed across the country. Firm prices are causing some butter producers to sell their cream versus churn, while others take advantage of additional cream offerings if favorably priced. Standardized milk for bottling is not generating as much additional cream as anticipated, although some butter producers anticipate increased cream offerings over the Labor Day holiday weekend. Butter demand is holding steady at fair to good levels. Some producers speculate that buyers are placing orders now before possible further price increases.

CHEESE: The cheese market is steady. Demand is occasionally improved, but seems somewhat lackluster for fall. Current cheese supplies are tight to adequate. Milk receipts continue to recover from recent heat spells though increased school milk needs limit volumes available for manufacturing. The Kansas City Commodity Office announced Invitation #1 to Announcement DSC1 offering for sale about 3 million pounds each of CCC-owned blocks and barrels for unrestricted use. Offers are due September 10. This is the first such cheese offering since the late 1980's.

FLUID MILK: In many areas of the country, the weather/temperatures have moderated and milk output is rebounding. However, in the Mountain States it remains hot and the milk flow continues to decline. Fluid milk supplies are tightening as more milk is going to fill Class I pipelines and less surplus milk is finding its way into manufacturing facilities. Milk to cover Class I needs is moving into the Southeast at relatively heavy volumes and, if historical patterns are followed, should continue until late November or early December. The fluid cream market across the country is firm and prices per pound butterfat are approaching and, at times, exceeding \$3.00. Trucking is often a problem with milk and cream shipments now that both are in good demand.

DRY PRODUCTS: The NDM market is little changed from past weeks. Production levels are light to moderate, lightest in the East and Central regions. Producer stocks are light east of the Rockies, fully adequate to ample west of the mountains. Offerings to CCC have been down significantly in the past few weeks. This week's sales were more than offset by cancellations, resulting in a negative total. The dry whey market is steady to firm. Production is light to moderate and, in some instances, barely keeping pace with contract shipping schedules. Spot demand for dry whey is fair to good, but buyers do seem to be delaying purchases as long as they can, hoping for lower prices. The dry

buttermilk market is steady and lackluster. There is no real test to the spot market at this time. The lactose market is steady and firm. Most of the current output is clearing via contracts and spot movement is light. The WPC market is unsettled and prices are unchanged to lower. Demand is fairly good from the food side of the market, but slow and unaggressive on the feed portion.

CCC: During the week of August 27 - 31, CCC net purchases totaled - 111,295 pounds of nonfortified NDM. Weekly purchases totaled 245,810 pounds of Western NDM, but CCC received cancellations for 357,105 pounds of previously offered Western NDM.

CLASS AND COMPONENT PRICES (DAIRY PROGRAMS): The following are the August 2001 prices under the Federal Milk Order pricing system with changes from the month prior: Class II \$15.98 (+\$0.02), Class III \$15.55 (+\$0.09); and Class IV \$15.06 (+\$0.25). Product price averages used in computing Class prices are: butter \$1.9990, NDM \$0.9473, cheese \$1.6693, and dry whey \$0.2886. The Class II butterfat price is \$2.3046 and the Class III/IV butterfat price is \$2.2976. Further information may be found at: www.ams.usda.gov/dairy/mib/classprcacnmt.pdf

COMMERCIAL DISAPPEARANCE (ERS and AMS): Commercial disappearance of dairy products during the first six months of 2001 total 82.9 billion pounds, 1.4% more than the comparable period in 2000. Comparing disappearance levels with a year ago: butter is -3.7%; American cheese, +3.8; other cheese, +2.4%; NDM, +25.8; and fluid milk products, -0.1%.

JULY CONSUMER PRICE INDEX (BLS): The July Consumer Price Index (CPI) for all food is 173.5 up 3.2% from July 2000. The dairy products index, at 168.3, is up 4.9% from a year ago. The following are July-to-July changes in selected dairy products: fresh whole milk +5.9%, cheese +4.5%, and butter +35.2%.

THE DAIRY SITUATION AND OUTLOOK (ERS): Milk production has recovered only slightly and remains well below a year earlier. Meanwhile, dairy product demand has held strong despite mixed economic trends. Dairy prices may slip slowly during autumn 2001, but conditions are not projected to change quickly. In fact, market tightness probably could send prices upward in response to only slightly different outcomes. Milk cow numbers have been about flat during recent months, at a level about 1% below the rising cow numbers of a year earlier. However, the very tight supplies of replacement heifers continue to inhibit expansion by stronger farms and caused farms to adopt the short-run expedient of keeping last-lactation cows an extra month or two. In addition, tight hay supplies in the West and high prices may also be affecting expansion plans. Widespread summer heat has had a significant effect, coming on the heels of damage from last winter's weather. Farm milk prices will be strong during the rest of the year, and the 2001 annual average will jump about \$3 per cwt to near-record levels. The expected surge in milk production next year probably will wipe out more than half of this year's price increase. Even so, farm milk prices are projected to stay well above those of 2000.

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**CHICAGO MERCANTILE EXCHANGE
CASH TRADING**

CHEESE: carload = 40,000-44,000 lbs., BUTTER: carlot = 40,000-43,000 lbs.

PRODUCT	MONDAY AUGUST 27	TUESDAY AUGUST 28	WEDNESDAY AUGUST 29	THURSDAY AUGUST 30	FRIDAY AUGUST 31	WEEKLY CHANGE*	WEEKLY AVERAGE
CHEESE BARRELS	\$1.6800 (N.C.)	\$1.6800 (N.C.)	\$1.6800 (N.C.)	\$1.6800 (N.C.)	\$1.6800 (N.C.)	(N.C.)	\$1.6800 (+.0450)
40# BLOCKS	\$1.7800 (N.C.)	\$1.7800 (N.C.)	\$1.7200 (-.0600)	\$1.7200 (N.C.)	\$1.7200 (N.C.)	(-.0600)	\$1.7440 (+.0120)
BUTTER GRADE AA	\$2.1750 (+.0225)	----	\$2.2250 (+.0500)	----	\$2.2250 (N.C.)	(+.0725)	\$2.2083 (+.0541)

*Sum of daily changes. # Weekly averages are simple averages of the daily closing prices for the calendar week. Computed by Dairy Market News for informational purposes. This data is available on the Internet at WWW.AMS.USDA.GOV/MARKETNEWS.HTM (NOTE: The NDM daily/weekly prices are reported here when changes occur. The Extra Grade price is \$.9900 and Grade A price is \$1.0000. NDM information remains available at the above internet address.)

CHICAGO MERCANTILE EXCHANGE

MONDAY, AUGUST 27, 2001

CHEESE -- SALES: 10 CARS 40# BLOCKS: 2 @ \$1.7600, 1 @ \$1.7575, 1 @ \$1.7600, 1 @ \$1.7800, 1 @ \$1.7775, 1 @ \$1.7800, 1 @ \$1.7750, 1 @ \$1.7675, 1 @ \$1.7800; BIDS UNFILLED: NONE; OFFERS UNCOVERED: NONE

BUTTER -- SALES: 13 CARS GRADE AA: 1 @ \$2.1450, 1 @ \$2.1475, 1 @ \$2.1450, 1 @ \$2.1475, 2 @ \$2.1500, 1 @ \$2.1525, 1 @ \$2.1500, 2 @ \$2.1525, 1 @ \$2.1600, 1 @ \$2.1625, 1 @ \$2.1725; BIDS UNFILLED: 2 CARS GRADE AA: 1 @ \$2.1750, 1 @ \$2.1575; OFFERS UNCOVERED: 2 CARS GRADE AA: 1 @ \$2.1975, 1 @ \$2.2000

TUESDAY, AUGUST 28, 2001

CHEESE -- SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: NONE

WEDNESDAY, AUGUST 29, 2001

CHEESE -- SALES: 1 CAR 40# BLOCKS @ \$1.7200; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 5 CARS 40# BLOCKS: 1 @ \$1.7600, 1 @ \$1.7700, 1 @ \$1.7775, 2 @ \$1.7800

BUTTER -- SALES: 13 CARS GRADE AA: 1 @ \$2.2000, 2 @ \$2.2025, 3 @ \$2.2050, 2 @ \$2.2100, 1 @ \$2.2125, 1 @ \$2.2150, 1 @ \$2.2200, 1 @ \$2.2225, 1 @ \$2.2250; BIDS UNFILLED: 4 CARS GRADE AA: 2 @ \$2.2050, 2 @ \$2.1750; OFFERS UNCOVERED: 1 CAR GRADE AA @ \$2.2500

THURSDAY, AUGUST 30, 2001

CHEESE -- SALES: 6 CARS 40# BLOCKS: 1 @ \$1.7175, 1 @ \$1.7200, 1 @ \$1.7250, 2 @ \$1.7200, 1 @ \$1.7250; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 1 CAR 40# BLOCKS @ \$1.7200

FRIDAY, AUGUST 31, 2001

CHEESE — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: NONE

BUTTER — SALES: 5 CARS GRADE AA @ \$2.2250; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 2 CARS GRADE AA: 1 @ \$2.2500, 1 @ \$2.2750

BUTTER MARKETS**NORTHEAST**

The market tone continues to firm and the price continues to advance. Since August 1, the CME cash price for butter has increased 19.5 cents (\$2.1750 following the August 27 trading). There is much speculation regarding how high is high when it comes to the butter price. In the East, production levels are limited as most plants that can make butter are selling their cream and using inventories to fill print orders. Demand for print butter remains slow to fair. Food service sales are slowing seasonally. Labor Day marks the end of the summer/vacation season and resort-area restaurants usually see a marked decline in business. Sales of bulk butter, f.o.b. East, are reported in a range of 3.5 – 8.0 cents over the CME price/average.

CENTRAL

Butter markets remain firm. At midweek, the AA cash price at the CME is over \$1.00 higher than it was last year at this time. Many producers and handlers anticipate a firm price for the fall, but question how high will it actually go. In many instances, stocks of butter are lighter than desired for this time of the summer. Imported butter continues to enter the country and help with shortages, but many handlers still question if they will have sufficient stocks to carry them through the balance of the year. Orders are surprisingly strong. Some speculate that buyers are hedging against possible higher prices in the future, thus ordering now, while others are just keeping up with good demand. Some retailers have not

passed total higher costs onto consumers, but now feel that they will have to make up the difference, thus questioning how consumers will react to higher prices. Already, some retailers have reported price resistance, so they feel that additional increase may further slow sales. When available, bulk butter for spot sale is selling in a price range of 3 – 5 cents per pound over various pricing bases

WEST

Production of butter is lighter at a number of locations because of less milk available for processing, general seasonal declines, and more milk going into the school pipelines. Cream sales are somewhat mixed with transportation issues still causing problems. The upcoming holiday weekend may back some additional milk into manufacturing, but finding trucks willing to run over the holiday will be even tougher. Higher retail prices are causing some slow down in demand. Food service sales into vacation areas are beginning to slow as summer comes to an end and schools start their new year. CME weekly butter stocks declined by 5.25 million pounds, the largest decline recorded this year. Stocks are off almost 20 million pounds over the past six weeks. Current prices for bulk butter range from 2.75 cents under to flat market based on the CME with various time frames and averages involved.

NASS DAIRY PRODUCT PRICES
 U.S. AVERAGE AND TOTAL POUNDS

WEEK ENDING	CHEESE		NDM	BUTTER	DRY WHEY	MILKFAT	
	40# BLOCKS	BARRELS 38% MOISTURE				CLASS II	ALL CLASSES
AUGUST 25	1.6778 6,328,640	1.6460 7,785,437	0.9519 23,387,304	2.0711 3,911,437	0.2894 10,413,189	2.5775 2,051,041	2.5990 3,782,910

Further data and revisions may be found on the internet at: <http://jan.mannlib.cornell.edu/reports/nassr/price/dairy>

CHEESE MARKETS

NORTHEAST

Prices are mixed. Process prices are fractionally lower, but based on the CME average for barrels, expected to increase next week. This has some buyers/distributors trying to buy-in this week. Prices for natural cheddar items are higher. The market tone is firm. Cheese output in the East is steady to lighter as surplus milk supplies are tightening. Cheese stocks are more than adequate for aged cheddar and more closely balanced for current styles. Mozzarella supplies are also closely balanced for an improving demand. The call for cheddar cheese is slow to fair and pricing is a growing factor in retail sales. Food service orders are slower now that Labor Day volumes have been shipped.

WHOLESALE SELLING PRICES: DELIVERED,
DOLLARS PER POUND (1000 - 5000 POUNDS MIXED LOTS)

Cheddar 10# Prints	:	1.7775-2.2475
Cheddar Single Daisies	:	1.7350-2.1950
Cheddar 40# Block	:	1.8725-2.0550
Process 5# Loaf	:	1.8525-2.0050
Process 5# Sliced	:	1.8725-2.1225
Muenster	:	1.9375-2.1450
Grade A Swiss Cuts 10 - 14#	:	2.3500-2.5500

MIDWEST

The cheese market is somewhat unsettled, though with a steady undertone for the short term. The price increases at the Chicago Mercantile Exchange cash cheese market on August 24 appears to be more from the supply side rather than demand driven. The wider than normal spread between blocks and barrels (10 cents) is shifting milk away from barrel production at some locations. Recent price increases have generated a slight increase in spot cheese demand. However, buyers remain reluctant to accumulate inventory at current prices and are trying to limit purchases to actual needs. Milk supplies remain tight and cheese yields continue to reflect low summer fat and protein levels in the milk. The reopening of schools has also provided some plant operators the opportunity to sell milk for good premiums rather than make cheese. The Kansas City Commodity Office announced Invitation #1 to Announcement DSC1 offering for sale about 3 million pounds each of CCC-owned blocks and barrels for unrestricted use. Offers are due September 10 with public release of awards scheduled for September 14. This is the first such cheese offering since the late 1980's.

WISCONSIN WHOLESALE SELLING PRICES: DELIVERED,
DOLLARS PER POUND (1000 - 5000 POUNDS MIXED LOTS)

Process American 5# Loaf	:	1.8525-2.0800
Brick And/Or Muenster 5#	:	2.0400-2.3225
Cheddar 40# Block	:	2.0200-2.1425
Monterey Jack 10#	:	2.1400-2.3550
Blue 5#	:	2.4725-2.6900
Mozzarella 5 - 6# (Low Moisture, Part Skim)	:	2.0700-2.2150
Grade A Swiss Cuts 6 - 9#	:	2.4550-2.6850

MIDWEST COMMODITY CHEDDAR

Dollars per pound, standard moisture basis (37.8-39.0%),
carlot/trucklot, F.O.B. plants or storage centers.

CHEDDAR STYLES : AUGUST 27 - 31, 2001

BARRELS*	:	\$1.6350 - 1.6900 (NOMINAL)
	:	(\$.0125) (.0350)
40# BLOCKS	:	\$1.7325 - 1.7800 (NOMINAL)
	:	(\$.0125) (.0250)

() Change from previous week. * If steel, barrel returned.

WEST

Prices are fractionally lower on process items this week with natural and Swiss moving higher based on averages at the CME last week. Manufacturers are somewhat concerned about what they perceive as slower sales at retail due to increasing prices. Good quality current blocks are moving reasonably well. Some slow down in demand for barrels from processors is noted. This situation also means that any lower quality/downgraded cheese is having a harder time finding much buyer interest, even with steep discounts. Swiss sales activity is fair for this season with stocks in close balance. Demand for mozzarella is picking up as families return to fall eating patterns. Much of this change in demand is caused by schools starting their fall term.

WHOLESALE SELLING PRICES: DELIVERED, DOLLARS PER POUND
(1000 - 5000 POUNDS MIXED LOTS)

Process 5# Loaf	:	1.7850-2.0450
Cheddar 40# Block	:	1.8525-2.0150
Cheddar 10# Cuts	:	2.0325-2.2525
Monterey Jack 10#	:	2.0425-2.2025
Grade A Swiss Cuts 6 - 9#	:	2.3600-2.5800

FOREIGN

Prices for domestically made styles continue to rise. The market tone is improving. Shopping habits get back into a more normal "school-year" pattern and consumption of some table cheese start to increase during the fall. However, the prices are often the determining factor. Recent reports indicate that January - July cheese imports are generally higher than same period last year. Some of the larger gains were noted in American-Type, up 2,601,388 KG (94.5%); Swiss/Emmentaler, up 14,463 KG (13.9 times greater than last year); blue-mold, up 152,671 KG (2.5 times a year ago). Also, cheese output in the EU-15 during the first five months of 2001 is estimated at 2.7 million MT, 3.2% more than the same period last year.

WHOLESALE SELLING PRICES: FOB DISTRIBUTORS DOCK
DOLLARS PER POUND (1000 - 5000 POUNDS, MIXED LOTS)

VARIETY	NEW YORK	
	IMPORTED	DOMESTIC
Roquefort	TFEWR	-0-
Blue	2.6400-3.1400	2.0800-3.5750*
Gorgonzola	3.2400-5.9400	2.4900-2.6475*
Parmesan (Italy)	TFEWR	3.4950-3.5500*
Romano (Italy)	2.1000-2.9900	-0-
Provolone (Italy)	3.4400-5.5000	2.0875-2.3075*
Romano (Cows Milk)	-0-	3.2700-5.4475*
Sardo Romano (Argentina)	2.6500-3.2900	-0-
Reggianito (Argentina)	2.6500-3.2900	-0-
Jarlsberg-(Brand)	2.7500-3.5900	-0-
Swiss Cuts Switzerland	-0-	2.3500-2.5500
Swiss Cuts Finnish	2.5900-2.8500	-0-
Swiss Cuts Austrian	2.2500-2.7500	-0-
Edam		
2 Pound	TFEWR	-0-
4 Pound	2.1900-2.9500	-0-
Gouda, Large	2.3900-2.6800	-0-
Gouda, Baby (\$/Dozen)		
10 Ounce	27.8000-31.7000	-0-

* = Price change.

WEEKLY COLD STORAGE HOLDINGS-SELECTED STORAGE CENTERS
IN THOUSAND POUNDS - INCLUDING GOVERNMENT STOCKS

	BUTTER	CHEESE
08/27/01	36,048	129,043
08/01/01	43,592	130,979
CHANGE	-7,544	-1,936
% CHANGE	-17	-1

FLUID MILK AND CREAM

E A S T

Spot shipments of Grade A milk into or out of Florida and other Southeastern states

	THIS WEEK		LAST WEEK		LAST YEAR	
	IN	OUT	IN	OUT	IN	OUT
FLORIDA	170	0	156	0	193	0
SOUTHEAST STATES	179	0	182*	0	202	0

* Corrected figure from the 211 loads reported last week.

The weather patterns have moderated somewhat and the milk flow is getting back to more normal levels. The output lost during the heat wave is not back "all the way," but plant intakes have bounced back nicely. This has allowed some contacts to reduce the amount of milk they had to purchase. In the Northeast, the milk production is generally reported as steady and milk supplies are still tight. Class I needs are picking up as the school lunch pipelines are being refilled this week and next. Retail sales of bottled milk are still slow to fair. In the Middle Atlantic and Southeast regions, most schools are back in session and the school lunch pipelines are filled and some bottlers have canceled some loads due to over ordering last week. This is helping ease the need for milk purchases in Florida and other Southeastern states. This week, schools in Florida's more populated counties reopen and more milk was needed. However, imports in the rest of the region were about steady with last week. There was an adjustment lower on last week's purchases. Any additional milk from regular or local suppliers eased the need for milk from the most distant sources. Surplus milk volumes remain tight and more plants are operating on reduced schedules until milk volumes return. In the Southeast, there is little manufacturing occurring at this time and most balancing plants are closed. The condensed skim market remains firm. Supplies are often tight and demand is holding up at good levels. Prices are unchanged on Class II; steady to higher within the range for Class III. More butter/powder plants are moving most of their solids as condensed and have little left to dry. Some of the increasing prices for Class III condensed are meeting resistance and users who can, are switching to NDM. The fluid cream market is firm. Supplies are tighter and demand is holding at fair to good levels. However, with the holiday weekend just ahead, the tight supply situation may moderate somewhat. Increasing prices are reportedly slowing spot sales. Both the CME butter price and multiples are higher this week. With per pound butterfat prices approaching \$3.00, users are taking a step back from the spot market. Ice cream output is often slower due the time of year and cost of fat. The Labor Day weekend is usually the "last hurrah" for resort-area businesses and demand for ice cream and other frozen novelties taper off in September. Cream cheese production is about steady, but like ice cream, producers are making fewer spot purchases. Churning is limited.

FLUID CREAM AND CONDENSED SKIM PRICES IN TANKLOT QUANTITIES

SPOT PRICES OF CLASS II CREAM, \$ PER LB BUTTERFAT

F.O.B. PRODUCING PLANTS: NORTHEAST	-	2.8435-2.9728
DELIVERED EQUIVALENT ATLANTA	-	2.8434-3.0159 M 2.8866-2.9297
F.O.B. PRODUCING PLANTS: UPPER MIDWEST	-	2.8005-3.0159

PRICES OF CONDENSED SKIM, \$ PER LB WET SOLIDS

F.O.B. PRODUCING PLANTS:	
NORTHEAST- CLASS II - INCLUDES MONTHLY FORMULA PRICES	- 1.0500-1.1100
NORTHEAST- CLASS III - SPOT PRICES	- 1.0000-1.0800

M I D W E S T

Midwestern milk producers and handlers are reporting that milk production continues to rebound from the losses of a few weeks ago when temperatures and humidity levels took their toll on the milk herd. Some handlers reported that receipts suffered as much as 15% during that period, but now, in many instances, have recovered about half of that loss. Most handlers are pleased that milk production is rebounding as positively as it is. Demand for milk

remains active, although lighter out of region shipments are being reported this week. Over 280 loads of milk again moved into Southern and Southeast states to supplement local production. The demand for additional milk volumes declined this week and the firm premium structure of recent weeks has eased somewhat. Premiums in the \$3.50 - \$5.00 range are being reported. Class I demand remains strong as bottlers continue to fill and balance school bottling pipelines. The easing of demand, especially at midweek, is being attributed to the upcoming holiday weekend, but orders are expected to increase prior to classes resuming on Tuesday of next week. Bottled milk demand is expected to be especially strong for next weeks as most all elementary and secondary schools, and colleges will have resumed classes for the fall session. Cream demand is mixed, especially as prices continue to firm. Butter operations are not overly aggressive in seeking out additional volumes of cream as it is difficult to justify butter production in light of sharply higher cream costs, unless the price is right. Ice cream and other cream based product production is seasonally active, even with higher cream costs.

WISCONSIN LIVESTOCK AUCTIONS (PER CWT.)

	AUG 23 - 29	PREVIOUS YEAR
SLAUGHTER COWS	\$ 41.00- 46.50	\$ 38.00- 43.00
REPLACEMENT HEIFER CALVES	\$420.00-600.00	\$330.00-440.00

SOUTH ST. PAUL TERMINAL AUCTION MARKET (PER CWT.)

	AUG 23 - 29	PREVIOUS YEAR
SLAUGHTER COWS	\$ 39.00- 48.50	\$ 36.00- 48.00

W E S T

July pool receipts of milk in California total 2.809 billion pounds, 3.2% higher than last year. Cumulative pool output through July 2001 total 19.275 billion pounds, up 3.8% (unadjusted) from 2000. The July blend price, at a fat test of 3.57%, is \$15.28, \$0.10 higher than June and \$3.65 higher than July 2000. The percentage of receipts used in Class I products is 19.03%. The July quota price is \$16.35 and the over quota price is \$14.65. These prices are 11 cents lower than June 2001 and \$3.35 higher than a year ago. Milk production in California is mostly steady to slightly higher. Conditions are generally favorable for the milking herd. Milk movements within the state are mostly as expected, but reports are that some cheese producers want less milk to keep their inventories in balance. Milk processors expect no problems handling the milk supply over the Labor Day holiday weekend. Weather conditions are changing slightly in Arizona. However, cooler temperatures at nighttime are helping cow comfort. Processors are noting that production appears to be moving higher on a limited basis. Fluid milk shipments to other areas are expected to cease shortly. Western cream multiples are trending lower as the week progresses. Multiples were reported in the 118 to 135 range, FOB. Offerings were increasing for over the weekend. Finding tankers to haul cream from the region remains a major problem. There are high prices being paid for tankers to be "deadheaded" to the West for loads being shipped out. The additional costs are not deterring demand. The Northwest picked up some much needed moisture last week. It helped to get some of the fires under control. Pastures and silage corn are in much better shape now. Milk production remains seasonally strong for this time of year but it is declining slowly. Hay offerings are light and the quality is often not what dairy hay buyers are looking for. Culling rates remain light. Heifer demand seems to be slower due to high prices and light offerings. Manufacturing plants are anticipating some additional milk offerings over the holiday weekend and they are, for the most part, welcome. Conditions remain hot and dry in Utah and Idaho. Milk production seems to be declining at a somewhat faster rate. Hay stocks are becoming more of a concern for more dairy producers. Some are stepping down in quality and blending with existing supplies to get costs under control. The dry range conditions are causing beef type animals to come off pasture much earlier than normal. This is adding to the competition for available hay supplies.

CENTRAL AND WEST DRY MILK PRODUCTS

All reports, except California manufacturing plants, were released 08/31/01 and represent FOB Central and Western production areas. Prices represent CL/TL quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

NONFAT DRY MILK - CENTRAL

Prices are unchanged and nominal on a steady to firm market. Most plants are sold out and unable to offer product on a spot basis. Production is unchanged to slightly higher in response to improvements in milk output due to the cooler temperatures. Production is also expected to increase over the holiday weekend. Demand is fair with a few spot inquiries relating to prices during 4th quarter and next year. High heat supplies are tight for the increasing interest. Mostly prices for report 35 in 2000 were 1.0150 - 1.0250.

Includes EXTRA GRADE and GRADE A, low and medium heat

NONFAT DRY MILK: .9600 - 1.0250 MOSTLY: .9600 - .9750

DRY BUTTERMILK - CENTRAL

Prices are unchanged and nominal on a steady market. Churning activity remains light, encouraging less than seasonal buttermilk production schedules. Supplies are mixed with most manufacturers reporting stocks that are tight or sold out while buyers report that resellers are offering product below the range. Some manufacturers list prices are above the range with plants aiming to sell at this level if product were available. Ice cream production is slowing yet movement of condensed buttermilk continues steadily. More buttermilk is expected to be available by sometime late October. Prices for report 35 in 2000 were .9825 - 1.0200.

BUTTERMILK: 1.0400 - 1.0875

DRY WHEY - CENTRAL

Prices are unchanged to higher on a mostly steady market. Most plants are reporting tight supplies. At some locations, manufacturers are shorting orders and delaying contractual shipments. Resale product is reportedly available at anywhere from a half to a penny over the average. Price resistance is being noted into export markets. Cheese production is increasing slightly at some locations in response to the cooler weather and increases in milk supply. Some plants suspect that these production increases will then alleviate whey supply problems. Condensed whey supplies are in balance to short of buyer demand, especially into some WPC/lactose facilities. Mostly prices for report 35 in 2000 were .1750 - .1850.

NONHYGROSCOPIC: .2500 - .3000 MOSTLY: .2900 - .2975

ANIMAL FEED WHEY - CENTRAL

Prices are unchanged and nominal on a generally steady market. Milk replacer supplies are readily available for the light to fair interest. Roller ground production is steady with some increased interest noted as animals feed more in the cooler temperatures. Some product is reportedly clearing into export markets. Delactose supplies remain tight for the good interest. Some plants are shorting contractual loads because of equipment problems. By the year-end, delactose supplies are expected to be in better balance. July veal production totaled 16 million pounds, 14% below July a year ago. Hog kill totaled 7.45 million head, 1% above July 2000. Milk replacer, roller ground and delactose prices for report 35 in 2000 respectively were .1300 - .1500, .1700 - .1900, and .3750 - .4000.

MILK REPLACER: .2300 - .2500

ROLLER GROUND: .2800 - .3000

DELACTOSE (Min. 20% protein): .4150 - .4300

LACTOSE - CENTRAL AND WEST

Prices are unchanged on a mostly steady to firm market. Spot movement is light on Extra Grade product with most movement occurring on a contractual basis. Inquiries from Asia are being reported with some buyers seeking to affirm supplies for 4th quarter and into 2002. Some manufacturers are unable to satisfy contractual commitments into export markets. However, brokers with excess stocks of lactose are often having difficulty clearing supplies into export markets due to price resistance. Production is steady to lower due to an inadequate supply of permeate and whey solids. Off grade lactose supplies are increasing for the good interest at prices that vary with quality and generally trend within the range of .1600 - .1800 FOB. Extra Grade mostly prices for report 35 in 2000 were .1650 - .1750.

Including spot sales and up to 3 month contracts. Mesh size 30 - 100.

EDIBLE: .1800 - .2700 MOSTLY: .1950 - .2200

WHEY PROTEIN CONCENTRATE - CENTRAL AND WEST

Prices are unchanged to lower and the market tone continues unsettled. Feed buyers continue to await price declines while generally opting not to purchase spot loads of WPC. Product is reportedly available at the lower end of the range into feed accounts while food buyers continue to purchase product at the higher end. With the recent CCC sell back, some buyers are delaying picking up WPC loads and seeking a release from their contractual agreements. Much contemplation is occurring regarding the market structure at the turn of the year when contracts expire. Some WPC producers are vowing to never negotiate with feed buyers again while others would consider a continued arrangement as current supplies are heavily balanced on feed demand. Feed buyers believe that the spot market may be a better option than contracting, especially if the government continues to sell back CCC NDM. New Zealand 80% feed grade WPC is reportedly available at .6500 - .6900 cents FOB on an equivalent 34% basis using the current central whey average. Production is mostly steady and off grade demand is good. Mostly prices for report 35 in 2000 were .7525 - .7725.

EXTRA GRADE 34% PROTEIN: .7400 - .8100 MOSTLY: .7650 - .7950

NONFAT DRY MILK - WEST

Nonfat dry milk markets are little changed this week and the tone remains rather unsettled. Domestic demand is light and not overly aggressive. Export demand is limited with some new interest exploring pricing and availability. Exporting will need to be done directly, not with the assistance of the DEIP program. Sales to the CCC under the support program continue on a limited basis and are expected to diminish further, and then cease. Producers' pricing levels are mostly in check with some changes made to move product. Drying schedules are mixed as some milk is being moved from cheese production to keep cheese stocks aligned. Sales of condensed solids are rated as good in California because of pricing factors. During the week of August 20-24, CCC net purchases totaled 1.3 million pounds. High heat prices are unchanged in continued limited trading. Additional seasonal interest is fair to good. Production capacity is not an issue and high heat can be made when orders dictate.

Includes EXTRA GRADE and GRADE A

LOW/MEDIUM HEAT: .9000 - 1.0225 MOSTLY: .9300 - .9500

HIGH HEAT: .9700 - 1.0100

DRY BUTTERMILK - WEST

Dry buttermilk prices are unchanged in generally limited trading. There is no real test to the spot market at the present time. Producer offerings are mostly light and there are several producers that are sold out or committed on contracts. Demand is low and not pressing the market. Drying schedules remain light, as churning action is limited. Overall, stock levels are adequate for current needs.

BUTTERMILK: 1.0000 - 1.0600 MOSTLY: 1.0300 - 1.0400

DRY WHEY - WEST

Prices are mixed for Western whey powder. Most producers report being in a balanced position on current production. Some plants that have been reporting some quality related production problems recently are now in better shape. Some manufacturers that rely on export sales for more of their sales activity are having more difficulty in staying current. Domestic sales activity looks very good. Production levels are noted to be somewhat lower as milk receipts at some locations are declining seasonally. Producer level stocks are generally reported to be in good shape.

NONHYGROSCOPIC: .2600 - .2900 MOSTLY: .2650 - .2800

CALIFORNIA MANUFACTURING PLANTS - NONFAT DRY MILK

WEEK ENDING	PRICE	POUNDS
August 24	\$.9420	16,076,601
August 17	\$.9360	15,168,561

Prices are weighted averages for Extra Grade and Grade A Nonfat Dry Milk, f.o.b. California manufacturing plants. Prices for both periods were influenced by effects of long-term contract sales. Compiled by Dairy Marketing Branch, California Department of Food and Agriculture.

NORTHEAST, SOUTHEAST, AND NATIONAL MILK PRODUCTS

All reports represent carlot/trucklot quantities for domestic and export sales in 25 kg. or 50 lb. bags, and totes, spray process, dollars per pound, unless otherwise specified. Delivered Southeast is delivered equivalent Atlanta.

NONFAT DRY MILK - NORTHEAST AND SOUTHEAST

Prices and the market tone are mostly steady. Production of NDM in the East is light. Surplus milk volumes are tight and the demand for condensed skim is holding up nicely. Some plants that historically dry daily are down to a few runs a week and then high heat is more often made than low heat. Eastern producers have little powder on hand to offer. Those that do have some inventory are holding it for regular customers. Demand for NDM is fairly good. As condensed skim prices hold above a dollar, users that can, are switching back to NDM as a source of solids.

Includes EXTRA GRADE AND GRADE A

F.O.B. NORTHEAST:

LOW/MEDIUM HEAT: .9800 - 1.0200 MOSTLY: .9850 - 1.0000

HIGH HEAT: 1.0000 - 1.0350 MOSTLY: 1.0150 - 1.0300

DELVD SOUTHEAST:

ALL HEATS: .9900 - 1.0900

DRY BUTTERMILK - NORTHEAST AND SOUTHEAST

Prices and the market tone are unchanged. Little churning is taking place in the East, which equates to little buttermilk being made. The call for condensed buttermilk is about steady and drying schedules are limited. Producers have little or no powder on hand to offer on the spot market. Often, they are moving LTL quantities to regular customers. Overall, demand is slow to fair.

F.O.B. NORTHEAST: 1.0450 - 1.0600

DELVD SOUTHEAST: 1.0700 - 1.0950

DRY WHOLE MILK - NATIONAL

Prices are steady to higher within the range and nominal. The higher prices are a result of the increasing butter price at the CME. Production levels remain light and producer stocks are light. Spot demand is seldom better than slow. Most production is geared to meeting contracts.

F.O.B. PRODUCING PLANT: 1.4100 - 1.5900

DEIP BID ACCEPTANCE SUMMARY

JULY 1, 2001 THROUGH AUGUST 24, 2001
WITH CHANGES FROM PREVIOUS REPORT

CHEESE -- 3,030 MT (6,679,938 LBS)

This program-year allocation is filled.

Allocations for the DEIP year beginning July 1, 2001: Nonfat dry milk - 68,201 MT;
Cheese - 3,030 MT; Butterfat - 21,097 MT.

DRY WHEY - NORTHEAST AND SOUTHEAST

Prices and the market tone are unchanged. Production levels are light to moderate in the East and most producers (Grade A and Extra Grade) have no product to offer on the spot market. Some are behind on contract deliveries and others are barely producing enough to keep current. Any extra spot load that does become available easily clears at normal premiums. Demand is little changed and not overly aggressive. However, producers report getting more inquiries about availability. Often these inquiries are from traders with little product on hand, wanting to have a little inventory should prices move higher during the fall. Conversely, buyers seem to be purchasing for short-term needs in the hope that prices will fall during the coming weeks.

F.O.B. NORTHEAST: EXTRA GRADE .2950 - .3000

USPH GRADE A .2900 - .3100

DELVD SOUTHEAST: .3175 - .3375

EVAPORATED MILK - NATIONAL

Prices are unchanged. The market remains highly competitive. Production levels are steady to lighter as most areas of the country have schools back in session and surplus milk volumes have tightened. Producer stocks are adequate to meet the current, fair demand. Some retailers are taking advantage of some of the attractive prices recently being offered and booking volumes for fall/winter needs.

DOLLARS PER 48 - 12 FLUID OUNCE CANS PER CASE DELIVERED MAJOR U.S. CITIES \$22.00 - 33.00

Excluding promotional and other sales allowances. Included new price announcements.

CASEIN - NATIONAL

Casein markets remain firm, although prices are generally steady. Domestic buyers continue to question future availability. Reports are indicating that stocks should be adequate to maintain steady shipments from Europe, although Oceania sources are still unclear as to their supplies with the milk production season just getting under way. Many producers and handlers are stating that they are entering into contracts for buyer needs that they know they will be able to meet and are unsure if they will have much left for spot sales.

SPOT SALES AND UP TO 3 MONTH CONTRACTS. PRICES ARE FOR EDIBLE NONRESTRICTED AND VARY ACCORDING TO MESH SIZE AND QUALITY.

RENNET: 2.5000 - 2.7300

ACID: 2.5500 - 2.6500

CHICAGO MERCANTILE EXCHANGE FUTURES

Selected settling prices, (open interest), and volume ^{1/}

Month	08/15	08/16	08/17	08/20	08/21	08/22	08/23	08/24	08/27	08/28
CME - (CLASS III) MILK FUTURES -- Dollars per cwt.										
AUG 01	15.50 (2922) 2	15.50 (2919) 29	15.55 (2934) 19	15.55 (2934) 16	15.54 (2918) 34	15.55 (2918) 0	15.55 (2920) 11	15.55 (2920) 0	15.53 (2920) 0	15.53 (2928) 4
SEP 01	15.85 (3141) 47	15.75 (3155) 51	15.60 (3168) 53	15.75 (3162) 8	15.60 (3174) 18	15.45 (3173) 2	15.45 (3236) 182	15.75 (3232) 18	15.69 (3253) 55	15.59 (3240) 121
OCT 01	15.00 (2596) 55	14.91 (2614) 54	14.65 (2623) 30	14.90 (2626) 7	14.75 (2643) 28	14.60 (2642) 2	14.60 (2726) 182	15.00 (2723) 29	14.85 (2734) 33	14.65 (2716) 92
NOV 01	13.99 (1952) 46	13.95 (1955) 40	13.53 (1972) 76	13.84 (1975) 8	13.70 (1995) 22	13.55 (1996) 4	13.60 (2009) 31	13.98 (2015) 11	13.85 (2021) 17	13.70 (2023) 25
DEC 01	13.40 (1645) 50	13.40 (1656) 44	13.00 (1669) 28	13.29 (1672) 15	13.25 (1688) 19	13.10 (1693) 10	13.10 (1701) 22	13.28 (1705) 8	13.15 (1709) 11	13.00 (1713) 24
JAN 02	12.15 (549) 57	12.12 (549) 16	12.06 (549) 0	12.15 (558) 13	12.20 (568) 22	12.15 (573) 5	12.15 (589) 36	12.30 (588) 4	12.17 (603) 23	12.20 (598) 8
FEB 02	11.98 (430) 44	11.92 (432) 11	11.86 (433) 1	11.95 (433) 6	11.96 (442) 20	11.96 (445) 11	11.96 (459) 41	11.99 (459) 2	11.99 (455) 5	11.97 (460) 7
MAR 02	11.99 (337) 22	11.92 (344) 13	11.87 (344) 0	11.92 (345) 3	11.95 (354) 20	11.95 (355) 5	11.95 (387) 37	12.00 (387) 1	11.95 (397) 10	11.93 (397) 4
APR 02	12.06 (234) 30	11.90 (239) 14	11.87 (239) 0	11.92 (247) 9	11.95 (260) 20	11.95 (265) 7	11.98 (265) 3	11.98 (268) 5	11.96 (268) 1	11.96 (268) 5
MAY 02	11.96 (174) 28	11.90 (178) 14	11.89 (178) 0	11.94 (184) 8	11.97 (198) 17	11.95 (199) 1	11.95 (208) 18	11.97 (208) 10	11.93 (209) 5	11.95 (211) 2
JUN 02	11.90 (142) 32	11.95 (143) 13	11.85 (143) 0	11.90 (148) 7	11.97 (161) 14	11.97 (161) 3	12.05 (169) 8	12.12 (169) 1	12.05 (168) 2	12.05 (171) 5
JUL 02	12.20 (72) 23	12.20 (73) 3	12.15 (74) 1	12.15 (74) 5	12.20 (76) 13	12.20 (77) 1	12.30 (80) 3	12.36 (82) 4	12.36 (82) 4	12.40 (84) 2
AUG 02	12.35 (57) 2	12.35 (58) 23	12.35 (58) 0	12.35 (58) 3	12.40 (59) 12	12.35 (60) 1	12.45 (62) 2	12.45 (63) 3	12.45 (63) 2	12.45 (65) 2
SEP 02	12.45 (27) 2	12.45 (27) 3	12.45 (27) 0	12.45 (28) 1	12.45 (30) 13	12.40 (30) 0	12.50 (30) 0	12.50 (30) 0	12.50 (30) 1	12.50 (31) 1
OCT 02	12.50 (14) 2	12.50 (17) 3	12.35 (17) 0	12.35 (17) 1	12.25 (28) 11	12.25 (28) 1	12.35 (28) 0	12.35 (28) 0	12.35 (28) 0	12.35 (29) 1
NOV 02	12.25 (1) 0	12.25 (5) 5	12.25 (5) 0	12.25 (5) 1	12.15 (16) 11	12.15 (16) 0	12.15 (16) 0	12.15 (16) 0	12.15 (16) 0	12.15 (17) 2
CME - CLASS IV MILK FUTURES - Dollars per cwt.										
AUG 01	15.00 (315) 0	15.00 (315) 0	14.95 (315) 0	14.94 (316) 1	14.95 (310) 7	15.04 (310) 0	15.04 (310) 0	15.04 (310) 0	15.04 (310) 0	15.04 (310) 0
SEP 01	15.35 (283) 0	15.35 (283) 1	15.50 (283) 0	15.50 (283) 5	15.50 (283) 0	15.50 (283) 0	15.50 (283) 0	15.50 (283) 0	15.50 (283) 0	15.60 (283) 0
OCT 01	15.09 (354) 0	15.09 (354) 0	15.09 (354) 0	15.09 (354) 0	15.09 (354) 0	15.15 (354) 0	15.15 (354) 0	15.15 (354) 0	15.15 (354) 0	15.15 (364) 10
NOV 01	14.40 (250) 0	14.40 (250) 0	14.42 (255) 5	14.63 (255) 0	14.63 (255) 1	14.60 (255) 0	14.60 (255) 0	14.60 (255) 0	14.60 (255) 0	14.60 (255) 0
DEC 01	13.60 (141) 0	13.60 (141) 0	13.60 (141) 0	13.65 (141) 0	13.65 (141) 0	13.65 (141) 0	13.65 (141) 0	13.65 (141) 0	13.65 (141) 0	13.65 (141) 0
JAN 02	13.19 (29) 1	13.19 (29) 0	13.19 (29) 0	13.19 (29) 0	13.19 (31) 2	13.10 (31) 0	13.10 (31) 0	13.10 (31) 0	13.10 (31) 0	13.10 (31) 0
FEB 02	13.00 (32) 2	13.00 (32) 0	13.00 (32) 0	13.00 (34) 2	13.00 (34) 0	13.00 (34) 0	13.00 (35) 1	13.00 (35) 0	13.00 (35) 0	13.00 (35) 0
CME - BUTTER FUTURES -- Cents per pound										
SEP 01	206.00 (102) 0	206.00 (100) 7	211.00 (98) 8	215.25 (98) 0	215.25 (99) 5	213.25 (99) 7	213.25 (99) 0	213.25 (96) 3	215.75 (94) 4	217.50 (94) 0
OCT 01	203.00 (26) 3	203.00 (26) 0	206.00 (26) 0	206.00 (26) 0	207.00 (27) 2	210.00 (27) 0	210.00 (27) 0	210.00 (27) 1	212.00 (27) 3	215.00 (28) 4
DEC 01	170.00 (5) 4	170.00 (5) 0	170.00 (5) 0	170.00 (5) 0	171.00 (5) 0	175.00 (5) 0	175.00 (6) 1	177.50 (5) 2	177.50 (5) 0	177.50 (5) 0
MAR 02	145.00 (6) 0	145.00 (6) 0	145.00 (6) 0	145.00 (6) 0	145.00 (6) 0	145.00 (6) 0	145.00 (6) 0	145.00 (6) 0	145.00 (6) 0	145.00 (6) 0
MAY 02	147.00 (7) 0	147.00 (7) 0	147.00 (7) 0	147.00 (7) 0	147.00 (7) 0	147.00 (7) 0	147.00 (7) 0	147.00 (7) 0	147.00 (7) 0	147.00 (7) 0
CME - NONFAT DRY MILK FUTURES -- Cents per pound										
AUG 01	95.75 (5) 0	95.75 (5) 0	95.75 (5) 0	95.75 (5) 0	95.75 (5) 0	95.75 (5) 0	95.75 (5) 0	95.75 (5) 0	95.75 (5) 0	95.75 (5) 0
SEP 01	95.00 (5) 0	95.00 (5) 0	95.00 (5) 0	95.00 (5) 0	95.00 (5) 0	95.00 (5) 0	95.00 (5) 0	95.00 (5) 0	95.00 (5) 0	95.00 (5) 0
OCT 01	93.75 (8) 0	93.75 (8) 0	93.75 (8) 0	93.75 (8) 0	93.75 (8) 0	93.75 (8) 0	93.75 (8) 0	93.75 (8) 0	93.75 (8) 0	93.75 (8) 0
NOV 01	93.75 (6) 0	93.75 (6) 0	93.75 (6) 0	93.75 (6) 0	93.75 (6) 0	93.75 (6) 0	93.75 (6) 0	93.75 (6) 0	93.75 (6) 0	93.75 (6) 0
DEC 01	93.75 (6) 0	93.75 (6) 0	93.75 (6) 0	93.75 (6) 0	93.75 (6) 0	93.75 (6) 0	93.75 (6) 0	93.75 (6) 0	93.75 (6) 0	93.75 (6) 0

^{1/} At the CME open interest for milk -- 200,000 pounds per contract. For more detailed information, you may call our automated voice system at 608-224-5088.

INTERNATIONAL DAIRY MARKET NEWS

Information gathered August 20 - 31, 2001

Prices are U.S. Dollars per MT, F.O.B. port. Information gathered for this report is from trades, offers to sell, and secondary data. This bi-weekly report may not always contain the same products and/or regions. Future reports may be included or withdrawn depending on availability of information. MT = metric ton = 2,204.6 pounds.

WESTERN AND EASTERN EUROPE

OVERVIEW: WESTERN EUROPE: Milk production in Western Europe continues to edge seasonally lower, although favorable weather conditions are conducive to a slower decline. Volumes of milk are available to maintain steady production schedules at most manufacturing locations, but stocks of some dairy products are lighter than desired for this time of the season. Producers and handlers state that supplies are available to meet steady domestic or internal buyer interest. For significant potential new buyer interest, some handlers are concerned about the ability to satisfy orders. Strong demand for fresh products and milk for cheese production is keeping milk volumes in a competitive situation. International buyer interest remains slow and unaggressive. Handlers speculate that economic conditions in some of the importing countries might be a major factor for light buyer interest. Much of the reluctance and cautiousness that occurred earlier this spring pertaining to foot and mouth disease has passed, especially from continental Europe, while still cautious about UK origin. Recent reports indicate that new instances of foot and mouth are occurring in the UK. This situation is being closely monitored in light of product movement and the spread of the disease as it did a few months ago.

BUTTER/BUTTEROIL: Butter markets are generally steady at unchanged prices. Stocks of butter are sufficient to meet internal needs, although somewhat questionable for new international buyer interest. PSA has now closed, thus early/older offerings will now become available to the market. At this point, no significant volumes are reported to be available. International sales remain slow and unaggressive. Western European producers and handlers do not have a good indication as to what buyer interest might develop from Russia during the upcoming winter, but recent sales have been reported from Eastern European sources.

82% BUTTERFAT: 1,500 - 1,630
99% BUTTERFAT: 1,600 - 1,875

SKIM MILK POWDER (SMP): Skim milk powder markets are generally steady at unchanged prices. Stocks of powder are lighter than desired by many producers and handlers, although stocks are sufficient to maintain steady domestic and internal sales. At this point, international buyer interest is slow and unaggressive. Some handlers are concerned about having adequate volumes of powder should significant new buyer interest develop.

1.25% BUTTERFAT: 2,000 - 2,150

WHOLE MILK POWDER (WMP): Whole milk powder markets are steady to firm with prices unchanged to slightly higher. Milk production is declining seasonally in Eastern and Western Europe, thus the competition for milk volumes is occurring. For the most part, whole milk powder stocks are sufficient to meet internal or domestic needs, although questionable should an international buyer request a significant volume. At this time, international buyer interest remains light.

26% BUTTERFAT: 1,950 - 2,050

SWEET WHEY POWDER: European whey powder markets are generally steady with prices unchanged to slightly lower. Cheese production in Europe remains strong, thus whey volumes continue to be reported as readily available. International buyer interest is slow as prices being quoted are higher than potential buyers are willing to pay.

NONHYGROSCOPIC: 450 - 550

OVERVIEW: EASTERN EUROPE: Milk output in Eastern Europe continues to edge seasonally lower. Reports indicate that milk volumes are heavier than last year at this time and Eastern European producers and handlers are taking full advantage of the additional offerings. Stocks of manufactured dairy products are lighter than desired, although they are in better shape than last season. Handlers report that sales activity is more active from Eastern Europe than Western Europe.

OCEANIA

OVERVIEW: Oceania milk production continues to build seasonally. At this point, New Zealand is experiencing the most growth with output in Australia still barely resuming. In New Zealand, spring has arrived and reports indicate that the season is off to a modest to good start. Pastures are lush and green with moisture levels in good shape. In Australia, the 2001 - 2002 milk production season is about to begin. Producers and handlers indicate that conditions have been quite favorable for a good start to their production season. It is still too early to project what milk volumes will do in both countries, but opinions are very optimistic for the new season. Stocks of manufactured dairy products remain low. Last season stocks have been fully committed with most of this stock in the final stages of shipment before the new season begins. For the most part, producers and handlers feel that they will be able to fill previous year commitments without having to reach into new production to finalize contracts. New international buyer interest is slow and unaggressive. Although buyer interest is light, producers and handlers are not overly concerned about inventory buildup at this time. No significant trading activity is being reported, thus prices are basically holding steady with recent quotations.

BUTTER: Butter markets are steady, although the undertone is firm. Stocks of butter are low as final shipments from last year's contracts are completed. Spot sales to the U.S. in recent months have basically cleared any additional butter that was available. Producers and handlers report that no significant new buyer interest is occurring. They continue to state that they are aware of the supply situation in the U.S. and maybe some early season sales might be generated.

82% BUTTERFAT: 1,375 - 1,500

CHEDDAR CHEESE: Oceania cheese markets are steady to firm at unchanged prices. Stocks of cheese are reported to be seasonally low with shipments continuing from inventoried stocks. The new milk production season is just getting underway in this region, thus stocks of cheese are anticipated to once again re-establish themselves. New sales are reported to be slow, although most handlers indicate that the season is just getting underway and are not overly concerned.

39% MAXIMUM MOISTURE: 2,175 - 2,300

SKIM MILK POWDER (SMP): Skim milk powder markets are generally steady at unchanged prices. Stocks of powder are seasonally low as shipments of previous year contracts are finalized. Producers and handlers report that new buyer interest is slow. As the new milk production season resumes, producers will be inventorying powder stocks for future needs.

1.25% BUTTERFAT: 2,050 - 2,125

WHOLE MILK POWDER (WMP): Whole milk powder markets are generally steady. The new milk production season is just getting underway in the Oceania region, thus no significant building of inventories is being reported at this time. International sales are slow. Light sales at this time are not a major concern for Oceania producers and handlers, for this will provide a time for them to build inventories before potential sales develop.

26% BUTTERFAT: 2,000 - 2,100

Exchange rates for selected foreign currencies: AUGUST 27, 2001

.4138 Dutch Guilder	.4662 German Mark
.1390 French Franc	.4392 New Zealand Dollar
.1096 Mexican Peso	.5299 Australian Dollar
1.4450 British Pound	.0083 Japanese Yen
.2354 Polish Zloty	.9119 Euro

To compare the value of 1 US Dollar to Mexican Pesos: $(1/.1096) = 9.1241$. That is 1 US Dollar equals 9.1241 Mexican Pesos.

Source: "Wall Street Journal"

CONSUMER PRICE INDEX (CPI-U) AND AVERAGE RETAIL PRICES FOR SELECTED PRODUCTS, U.S. CITY AVERAGE ^{1/}

Month and Year	All Food		Dairy Products		Fresh Whole Milk		Cheese		Butter		Meat, Poultry, Fish and Eggs	
	CPI ^{2/}	Pct. Chg. ^{3/}	CPI ^{2/}	Pct. Chg. ^{3/}	CPI ^{2/}	Pct. Chg. ^{3/}	CPI ^{2/}	Pct. Chg. ^{3/}	CPI ^{2/}	Pct. Chg. ^{3/}	CPI ^{2/}	Pct. Chg. ^{3/}
MAY 2001	172.5	3.1	164.7	3.2	165.1	5.8	165.3	2.0	170.9	28.6	160.8	4.5
JUN 2001	173.0	3.4	166.9	4.6	167.0	6.4	166.8	3.2	178.7	30.0	161.7	4.4
JUL 2001	173.5	3.2	168.3	4.9	168.3	5.9	168.6	4.5	186.3	35.2	162.3	4.2
U.S. City Average Retail Prices												
Month	Whole Milk ^{4/}		Lowfat Milk ^{4/}		Butter ^{5/}		Process Cheese ^{6/}		Natural Cheese ^{7/}		Ice Cream ^{8/}	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	Dollars											
MAY	2.893	2.782	2.564	2.714	3.262	2.379	3.862	3.692	3.964	3.740	3.633	3.347
JUNE	2.911	2.763	2.674	2.637	3.385	2.525	3.949	3.822	3.968	3.758	3.703	3.546
JULY	2.933	2.781	2.697	2.666	3.549	2.718	3.928	3.828	4.064	3.823	3.720	3.461

NA = Not available. ^{1/} "CPI Detailed Report," "Consumer Prices: Energy and Food," BLS, U.S. Department of Labor. According to BLS, average prices are best used to measure the price level in a particular month. To measure price change over time, the CPI is more appropriate. ^{2/} The standard reference base period for these indexes is 1982-1984 = 100. ^{3/} Percent change over previous year. ^{4/} Per gallon. ^{5/} Per pound. Grade AA, salted, stick butter. ^{6/} Per pound, any size and type of package. ^{7/} Per pound, cheddar cheese in any size and type of package and variety (sharp, mild, smoked, etc.). ^{8/} Per 1/2 gallon, prepackaged regular.

COMMERCIAL DISAPPEARANCE: TOTAL MILK AND SELECTED DAIRY PRODUCTS-APRIL-JUNE AND YEAR-TO-DATE 2000-2001 ^{1/}

Item	Apr.-Jun. 2000	Percent change ^{2/}	Apr.-Jun. 2001	Percent change ^{2/}	Jan.-Jun. 2000	Percent change ^{2/}	Jan.-Jun. 2001	Percent change ^{2/}
	Million Pounds							
<u>MILK</u>								
Production	43,189	2.8	42,661	-1.2	85,819	3.4	83,967	-1.6
Marketings	42,863	2.8	42,343	-1.2	85,167	3.5	83,335	-1.6
Beginning Commercial Stocks ^{3/}	9,337	14.4	8,325	-10.8	6,143	16.5	6,839	11.3
Imports ^{3/}	1,209	26.5	1,640	35.6	2,161	3.3	2,764	27.9
Total Supply ^{4/}	53,409	5.1	52,308	-2.1	93,471	4.2	92,938	-0.1
Ending Commercial Stocks ^{3/}	10,691	16.3	9,901	-7.4	10,691	16.3	9,901	-7.4
Net Removals ^{3/}	262	249.3	30	-88.5	535	254.3	98	-81.7
Commercial Disappearance ^{4/}	42,456	2.2	42,377	-0.2	82,245	2.4	82,939	1.4
<u>SELECTED PRODUCTS ^{5/}</u>								
Butter	286.9	-9.2	274.7	-4.3	585.3	-5.8	560.3	-3.7
American Cheese	895.5	4.8	905.0	1.1	1,754.8	3.4	1,811.1	3.8
Other Cheese	1,255.7	9.4	1,239.8	-1.3	2,391.4	8.2	2,436.1	2.4
Nonfat Dry Milk	179.5	0.5	229.9	28.1	347.0	-10.2	434.5	25.8
Fluid Milk Products ^{6/}	13,478.3	-1.0	13,412.6	-0.5	27,593.4	-0.6	27,420.5	-0.1

^{1/} Commercial disappearance includes civilian and military purchases of milk and dairy products for domestic and foreign use, but excludes farm household use and USDA donations of dairy products. Disappearance is a residual figure and therefore can be affected by any inaccuracies in estimating milk production, on-farm use, stocks, and imports.

^{2/} From year earlier on a daily average basis. ^{3/} Milk-equivalent, milkfat basis. ^{4/} Totals may not add because of rounding. ^{5/} Commercial disappearance in product pounds.

^{6/} Sales. Estimate based on actual sales in Federal milk order marketing areas and California. These sales figures have not been adjusted for calendar composition.

SOURCE: Economic Research Service, USDA. Fluid milk products - Agricultural Marketing Service, USDA.

THE DAIRY SITUATION AND OUTLOOK

Milk Production Down, Dairy Product Demand Strong -- Wholesale prices of dairy products have not exactly been steady but have not changed much since spring. Milk production has recovered only slightly and remains well below a year earlier. Meanwhile, dairy product demand has held strong despite mixed economic trends. Dairy prices may slip slowly during autumn 2001, but conditions are not projected to change quickly. In fact, market tightness probably could send prices upward in response to only slightly different outcomes.

Milk cow numbers have been about flat during recent months, at a level about 1 percent below the rising cow numbers of a year earlier. This year's much higher returns apparently have already slowed dairy farm exits. However, the very tight supplies of replacement heifers continue to inhibit expansion by stronger farms and caused farms to adopt the short-run expedient of keeping last-lactation cows an extra month or two. In addition, tight western hay supplies and high prices may also be affecting expansion plans. Milk per cow continues to suffer in the face of very favorable milk-feed price ratios. Forage quality remains a major factor. Widespread summer heat has had a significant effect, coming on the heels of damage from last winter's weather. Milk per cow has recovered a little from March-April but stays far below the trend line. Significant growth from a year earlier is not expected until autumn. Milk production is expected to move above a year earlier this autumn but large increases are not projected until 2002. Average cow numbers and milk production are expected to decline about 1 percent in 2001. Milk output could surge almost 3 percent in 2002 if milk per cow resumes trend growth as expected.

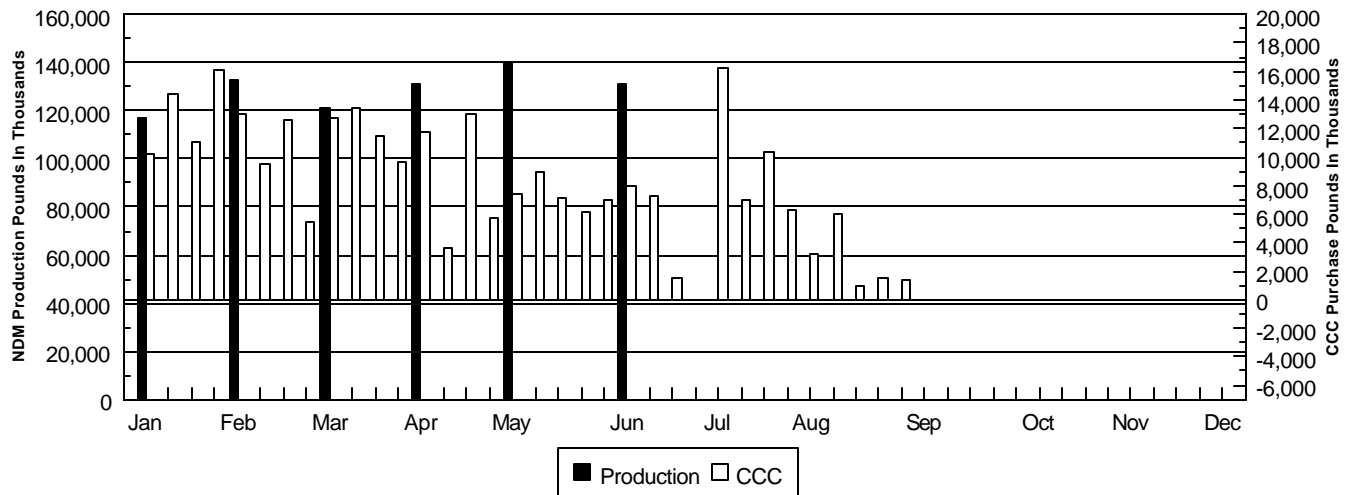
By the end of July, the high U.S. butter prices had attracted the equivalent of 24 million pounds of butter imported beyond the tariff-rate quota (TRQ). The high tariff imports consisted of almost twice as much butter as butteroil. The somewhat tight international butter markets, the seasonal lack of Southern Hemisphere production, the difficulty of marketing imported butter, and the inherent riskiness of over-TRQ imports limited such imports despite the nominal profitability. Over-TRQ imports are not expected to be significant this autumn. Since the reduction in the support purchase price of nonfat dry milk, U.S. powder has been available for commercial export at some very attractive prices. The European Union (EU) set their export restitution at zero, reflecting their tight domestic situation and international market strength. Even so, buyers have been very unaggressive. The large U.S. supplies are ample for importers' needs, and further weakening in U.S. prices is possible. In addition, seasonal tightening is still a few months away. Significant exports reportedly have been made, but large shipments probably will not start until autumn.

Seasonal easing in cream availability will start soon, as farm milkfat production increases, cream available from fluid products jumps, and ice cream sales decline. Whether this easing translates into lower butter prices hinges on the state of current stocks, particularly pipeline stocks, and expectations of autumn market conditions. Late August price increases imply that users probably are not comfortable with supplies. Even so, prices may peak relatively early if milk production recovers as expected. However, milkfat markets probably will stay fairly tight until yearend and may remain volatile. Cheese prices may be softened by rising milk output and any slippage in butter prices. Like butter prices, cheese prices are not expected to decline substantially until at least yearend. Cheese prices will also be affected by where nonfat dry milk prices settle. Recent prices for powder have included sales at prices well above the current support purchase price of 90 cents per pound even though sales to the Government have been sizable. If additional commercial exports materialize, price support purchases may cease seasonally, but average prices may slip from current levels. Farm milk prices will be strong during the rest of the year, and the 2001 annual average will jump about \$3 per cwt to near-record levels. The expected surge in milk production next year probably will wipe out more than half of this year's price increase. Even so, farm milk prices are projected to stay well above those of 2000.

SOURCE: "Livestock, Dairy, and Poultry Situation and Outlook", LDP-M-86, August 29, 2001, Economic Research Service, USDA. For more information on the LDP report, contact James J. Miller, (202) 694-5184. Also, please note that this summary has been condensed from the original by the Market Information Branch, Dairy Programs AMS.

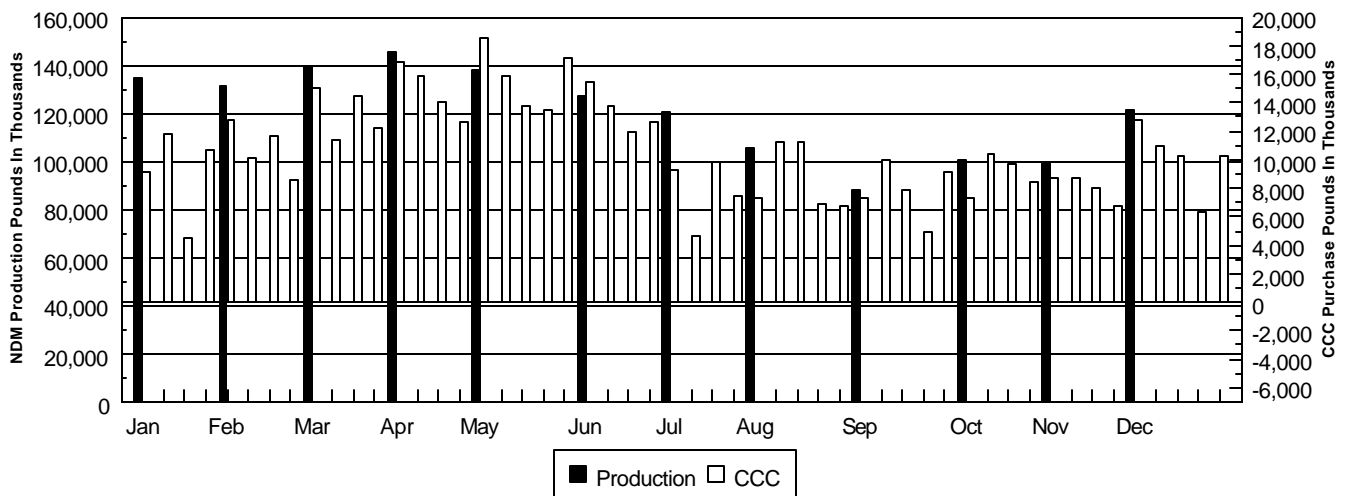
Nonfat Dry Milk Production vs. NDM CCC Purchases (nonfortified & fortified)

2001



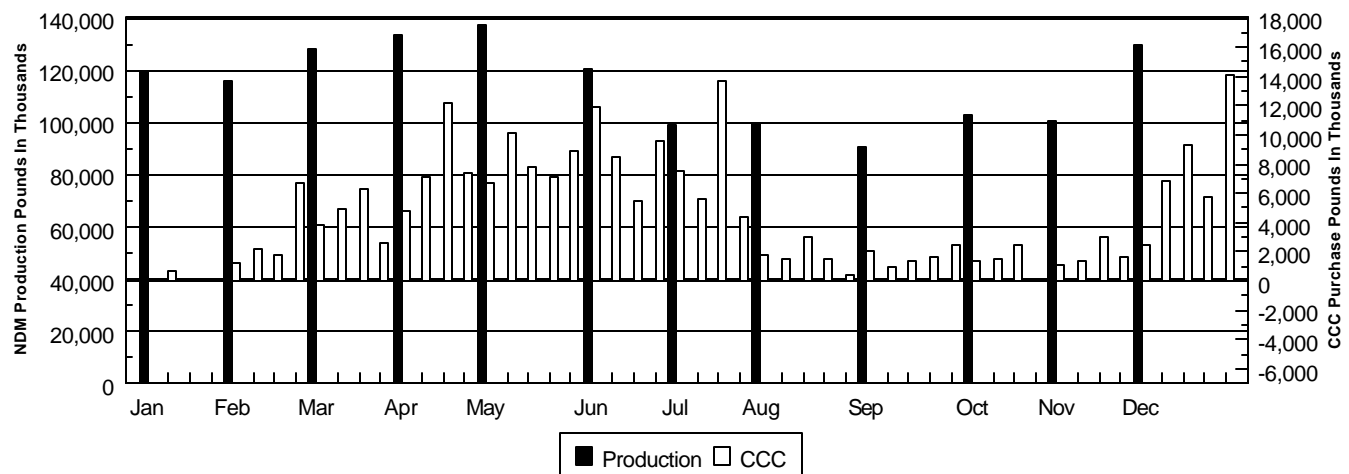
Nonfat Dry Milk Production vs. NDM CCC Purchases (nonfortified & fortified)

2000



Nonfat Dry Milk Production vs. NDM CCC Purchases (nonfortified & fortified)

1999



CCC PURCHASES OF DAIRY PRODUCTS (POUNDS)

	FOR THE WEEK OF AUGUST 27 - 31, 2001			CUMULATIVE TOTALS		UNCOMMITTED INVENTORIES#	
	TOTAL PURCHASES	CONTRACT ADJUSTMENTS	ADJUSTED PURCHASES	SINCE 10/01/00	SAME PERIOD LAST YEAR	WEEK ENDING 08/24/01	SAME PERIOD LAST YEAR
BUTTER							
Bulk	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Packaged	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Unsalted	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-	-0-
CHEESE							
Block	-0-	-0-	-0-	3,050,083	1,162,919	-0-	-0-
Barrel	-0-	-0-	-0-	4,025,276	-0-	-0-	-0-
Process	-0-	-0-	-0-	3,999,600	5,781,600	-0-	-0-
TOTAL	-0-	-0-	-0-	11,074,959	6,944,519	-0-	-0-
NONFAT DRY MILK							
Nonfort	245,810	357,105	-111,295	371,099,913	445,498,849	601,528,000	-0-
Fortified	-0-	-0-	-0-	28,151,091	12,628,476	38,227,000	-0-
TOTAL	245,810	357,105	-111,295	399,251,004	458,127,325	639,755,000	-0-

Although an uncommitted inventory of NDM has continued to exist for some time, it has not been reported due to CCC's efforts to utilize all NDM purchased under price support.

MILK EQUIVALENT, FAT SOLIDS BASIS, OF ADJUSTED PURCHASES (MILLION POUNDS)

	MILKFAT* BASIS	SKIM** SOLIDS		MILKFAT* BASIS	SKIM** SOLIDS
WEEK OF AUGUST 27 - 31, 2001 =	0.0	-1.3	COMPARABLE WEEK IN 2000 =	3.4	87.5
CUMULATIVE SINCE OCTOBER 1, 2000 =	190.1	4,756.9	CUMULATIVE SAME PERIOD LAST YEAR =	164.9	5,401.4
CUMULATIVE JANUARY 1 - AUGUST 31, 2001 =	73.5	3,274.3	COMPARABLE CALENDAR YEAR 2000 =	153.7	4,808.2

* Factors used for Fat Solids Basis Butter times 21.80; Cheese times 9.23; and Nonfat Dry Milk times 0.22
 **Factors used for Skim Solids Basis Butter times 0.12; Cheese times 9.90; and Nonfat Dry Milk times 11.64

CCC ADJUSTED PURCHASES FOR THE WEEK OF AUGUST 27 - 31, 2001 (POUNDS)

REGION	BUTTER			CHEESE			NONFAT DRY MILK	
	BULK	PACKAGED	UNSALTED	BLOCK	BARREL	PROCESS	NONFORTIFIED	FORTIFIED
MIDWEST	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
WEST	-0-	-0-	-0-	-0-	-0-	-0-	-111,295	-0-
EAST	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-

CCC ADJUSTED PURCHASES SINCE 10/1/00 AND SAME PERIOD LAST YEAR (POUNDS) AND MILK EQUIVALENT AS A PERCENT OF TOTAL

REGION	BUTTER		CHEESE		NONFAT DRY MILK		MILK EQUIVALENT (%)	
	2000/01	1999/00	2000/01	1999/00	2000/01	1999/00	2000/01	1999/00
MIDWEST	-0-	-0-	5,995,440	6,863,991	6,677,037	45,752,490	29.9	44.5
WEST	-0-	-0-	5,039,919	80,528	392,573,967	407,434,575	69.2	54.8
EAST	-0-	-0-	39,600	-0-	-0-	4,940,260	0.2	0.7
TOTAL	-0-	-0-	11,074,959	6,944,519	399,251,004	458,127,325	100.0	100.0

SUPPORT PURCHASE PRICES FOR DAIRY PRODUCTS PRODUCED ON OR AFTER MAY 31, 2001

MANUFACTURING MILK Average Test 3.67% - \$9.90 per cwt.; 3.5% - \$9.80

BUTTER Bulk \$.8548 per pound; 1# Prints \$.8848

CHEESE 40 & 60# Blocks \$1.1314 per pound; 500# Barrels \$1.1014; Process American 5# \$1.1839; Process Am. 2# \$1.2239

NONFAT DRY MILK Nonfortified \$.9000 per pound; Fortified \$.9100; Instant \$1.0575

U.S. Dairy & Total Cow Slaughter under Federal Inspection, by Regions, for Week Ending 08/11/01 & Comparable Week 2000

Regions* (000 HEAD)	1	2	3	4	5	6	7	8	9	10	WEEK	U.S. TOTAL SINCE JAN 1	% DAIRY OF ALL WEEK SINCE JAN 1
2001-Dairy	0.2	0.7	4.5	5.0	16.0	2.5	1.7	0.8	9.8	2.3	43.4	1,586.4	44.2
2000-Dairy	0.3	0.9	5.9	4.6	18.6	2.3	0.9	0.7	8.9	2.8	45.8	1,580.6	49.4
2001-All cows	0.2	0.9	6.1	13.7	23.7	14.2	16.5	4.5	12.7	5.6	98.2	3,417.9	
2000-All cows	0.3	1.1	8.0	12.1	26.5	13.2	11.2	3.6	11.5	5.4	92.8	3,239.5	

SOURCE The slaughter data are gathered and tabulated in a cooperative effort by the Agricultural Marketing Service, The Food Safety and Inspection Service, and the National Agricultural Statistics Service, all of USDA.

CLASS III (2000) AND BFP (1998-99) MILK PRICES, (3.5% BF, \$/CWT. FOR COMPARISON PURPOSES ONLY)

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1998	13.25	13.32	12.81	12.01	10.88	13.10	14.77	14.99	15.10	16.04	16.84	17.34
1999	16.27	10.27	11.62	11.81	11.26	11.42	13.59	15.79	16.26	11.49	9.79	9.63
2000	10.05	9.54	9.54	9.41	9.37	9.46	10.66	10.13	10.76	10.02	8.57	9.37

FEDERAL MILK ORDER CLASS PRICES FOR 2001 (3.5% BF)

CLASS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
I 1/	13.99	11.94	12.65	13.44	14.21	14.99	15.34	15.40	15.56			
II	12.82	13.43	14.17	15.10	15.72	16.05	15.96					
III	9.99	10.27	11.42	12.06	13.83	15.02	15.46					
IV	12.13	12.70	13.46	14.41	15.04	15.33	14.81					

1/ Specific order differentials to be added to this base price are located at www.ams.usda.gov/dairy/mib/class_prod_milk_comp_pr.htm